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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Trends In The Money Supply . . .

With the onset of autumn, not only are the leaves turning brighter—so, too, is the interest rate outlook. For slower money growth, reduced estimates of Treasury borrowing needs, and a slight fading of the recovery's momentum now suggest stable, if not lower interest rates ahead. What is more, the emerging pattern of corporate finance—characterized by strong profits growth and lackluster credit demands—virtually precludes for this year the long-feared collision of private and Federal credit needs. All in all, today's interest rate outlook is decidedly different from that of just four months ago—when a faster pace of business activity, rapid money growth and a modest tightening of the credit reins were all combining to push interest rates higher.

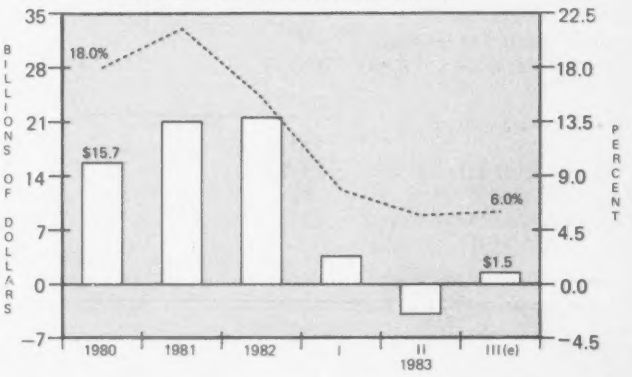
Perhaps the most encouraging development affecting near-term interest rate expectations has been the sharp deceleration of money supply growth. With the M1 money supply measure actually declining over the past month, and the broader M2 and M3 measures growing only modestly, the Federal Reserve now finds itself in the unusual position of having all of its monetary aggregates expanding within their respective, 1983 target boundaries. In fact, the slowing of the M1 money measure has been so pronounced that it now stands closer to its lower growth target boundary than its upper one: It is less than $2 billion ***above*** its five percent lower growth target boundary and almost $5 billion ***below*** its nine percent upper growth target boundary. Just three months ago, M1 stood a sizable $7 billion above its ***upper*** target boundary.

In fact, M1 may soon fall below its lower target. This is because one byproduct of the elimination of interest rate ceilings on deposits of over 31 days on October 1 could well be a substantial shift of funds from such interest-bearing M1 components as NOW and Super-NOW accounts into deregulated, fixed-term time deposits. If this occurs, the Fed may find itself urged to gently step on the money accelerator in order to ensure that below-target M1 money growth does not persist for too long—provided, of course, that the deregulation-induced deposit shifts are not sufficiently large to lift M2 (where the small time deposits will be located) above its upper target boundary.

. . . Federal And Corporate Finance . . .

The Treasury's financial position has improved—at least for the near-term. With actual outlays for such programs as agriculture price supports and extended unemployment insurance benefits running below original projections, and tax collections running above earlier expectations as more people return to work and corporate profits improve, estimates of the Treasury's net borrowing needs are being scaled back. In the third quarter, for example, net cash raised was closer to $45 billion, rather than the expected $55 billion; during the final three months of 1983, net cash needs will again probably be in the $45 billion range, compared with earlier official estimates of $60 to $65 billion.

NET CHANGE IN C & I LOANS OUTSTANDING (BAR) VS. NONFINANCIAL CORPORATE CREDIT DEMANDS AS A % OF TOTAL FUNDS RAISED (DOT)



To be sure, the Treasury will still raise some $90 billion in net cash in the second half of this year, and the fiscal year 1984 budget deficit may still top $175 billion. But at least the direction of Washington's borrowings is turning more favorable. A fourth-quarter borrowing pace of $45 billion would mark the second quarter in a row that the year-over-year pace of Treasury borrowings will have declined, a welcome reversal of the ever-escalating borrowing trend which characterized much of 1982 and early 1983. This, in turn, should allow room for some expansion of private borrowings as the recovery matures, without immediately prompting a clash of public and private credit needs.

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As of now, trends in the pattern of corporate finance suggest that this collision may be quite distant. This is because with corporate cash flows bolstered by vigorously rebounding profits and capital outlays still weak, nonfinancial corporations are now generating more funds internally than they are actually spending on inventories, plant and equipment. In the first half of 1983, corporate America generated $1.10 internally for each $1 of capital spending, and corporate credit demands faded as a result. These borrowings ran at a seasonally adjusted $38 billion annual rate during the January-June period, almost 60 percent below same-period, year-earlier levels—and accounted for just 6.4 percent of total funds raised in the credit markets. And while this small corporate share (see chart on page 1) was just about one-third the preceding five calendar year average, by the second quarter of 1983 it had slumped even lower—to 5.7 percent. With one quarterly exception this was the smallest number in almost 30 years: The one exception occurred just two quarters earlier when this ratio dropped to 4.3 percent.

. . . Suggest Lower Interest Rates Ahead

The fading of corporate America's credit demands continues to provide the elbow room necessary for the Treasury to finance its deficits without unduly disrupting interest rates. Even better is the fact that this situation is not expected to change anytime

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/21/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	158.080	+ 4.608	+16.882
Loans to Depository Inst.	2.109	+ .961	+ 1.299
Float	.877	– .763	– 1.405
Total Reserve Bank Credit	169.028	+ 5.023	+15.205
Treasury Deposits with Federal Reserve Banks	7.175	+ 3.737	+ 3.564
Currency Outside Banks	145.030	– .076	+12.316
Member Bank Reserves:			
Required	38.096	+ 1.385	– 1.908
Excess (Deficiency)	.245	– .177	– .005
Total Reserves Held	38.341	+ 1.208	– 1.913
Net Borrowed Reserves	1.158	+ 1.118	+ .816
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.609	– 1.446	+13.123

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	517.8	+ 3.7‡	+ 11.7‡
M2 (August '83)	2,136.9	+ 7.8	+ 12.3
M3 (August '83)	2,528.5	+ 8.4	+ 9.1
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 9/30/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.75%	8.90%	9.05%
* Federal Agencies	8.80	9.25	9.90
* Project Notes—Taxfree (46% Taxable Equivalent)	9.72	9.91	10.56
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.20	9.40	10.15

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.38%	Oct.	9.10%
15- 29 days	9.13	Nov.	9.10
30- 59 days	9.13	Dec.	9.10
60- 89 days	9.00	Jan.	9.10
90-179 days	9.00	Feb.	9.10
180-239 days	8.88	Mar.	9.05
240-270 days	8.88		

‡ Industrial Paper—Prime		† Federal Funds Effective Rate	10.50%
30- 89 days	9.38%		
90-120 days	9.15		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,272	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,525	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.7	2.6	0.9
Change in Consumer Prices (new series)*	Aug '83	4.8%	4.8%	3.6%
Change in Producer Prices*	Aug '83	4.8%	1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Aug '83	101,563	101,285	99,683
Unemployment as % of Civilian Labor Force†	Aug '83	9.5%	9.5%	9.9%
Personal Income*	Aug '83	$ 2,755	$ 2,749	$ 2,587
Leading Indicators Composite Index (1967=100)†	Aug '83n	158.1	158.3r	136.1
Industrial Production Index (1967=100) †	Aug '83	150.5	149.2	138.4
Net Change in Consumer Installment Credit †	Jul '83	$ 4.84	$ 4.41	$ 0.84
U.S. Merchandise Trade Balance †	Aug '83n	–$ 7.19	–$ 6.36	–$ 6.53
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Aug '83	1,935	1,785	1,046
New Construction Expenditures*	Jul '83	$ 267.7	$ 263.1	$ 230.8
Total Business Inventories †	Jul '83	$ 506.7	$ 505.5	$ 521.1
Total Business Sales †	Jul '83	$ 372.3	$ 373.6	$ 347.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

soon. To be sure, while total business credit demands have begun to inch higher from the trough reached in the fourth quarter of 1982, they have not risen by much. As of midyear, they were still running 60 percent below the peak reached in the spring of 1981 and about 40 percent below year-earlier levels. Furthermore, this trend carried into the summer quarter. Commercial and industrial loans outstanding, often a reliable guide to overall business borrowings, drifted sideways during the summer months, expanding at an anemic 1.6 percent seasonally adjusted annual rate during the past 13 weeks. Although this is, indeed, a turnaround from the outright decline in C & I outstandings during the immediately preceding 13 weeks, it is largely attributable to the modest restocking of business inventories now under way.

All this suggests that the combination of within-target money growth, lower-than-expected Treasury borrowings and today's pattern of corporate finance bodes well for lower interest rates by yearend. In this environment, Federal borrowings will jeopardize neither the recovery nor lower rate prospects, since together the nation's commercial banks and thrift institutions will almost certainly retain the capacity to absorb the lion's share of new Treasury debt offerings. This, in turn, should be sufficient to at least postpone the negative debt market consequences of Washington's continuing profligacy. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/14/83)	92,634	– 1,439	–54,085
New York City (9/14/83)	21,766	– 353	–17,329
Commercial Paper (9/14/83)	175,293	+ 1,303	+ 2,845*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/14/83)	213,496	– 602	– 3,187
New York City (9/14/83)	57,791	– 309	– 3,590

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/14/83)	509,231	– 1,809	+ 8,582
New York City (9/14/83)	115,950	– 1,314	– 3,378

Financial Markets

	Friday 9/30/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.00%	– .12	+ 1.50
180-Day Bills†	9.40	–0–	+ .33
Longest Bills†	9.80	+ .08	– .30
Recent Issues:			
10⅞s 9/30/85	10.50	–0–	
11⅛s 9/30/87	10.95	– .02	
11⅞s 8/15/93	11.40	+ .05	
12s 8/15/13	11.45	+ .10	
Municipals:			
Bond Buyer–20 Bond Index* (9/29/83)	9.46%	+ .04	– 1.02
Blue List Total ($ Million)	$1,393	+ $284	+ $216
30-Day Visible Supply ($ Million)	$2,305	+ $ 13	– $516
Total	$3,698	+ $297	– $300
Corporates:			
Moody's Aa Composite (9/29/83)	12.51%	– .04	– .92
30-Day Visible Supply ($ Million)	$ 607	+ $110	– $505
Stocks:			
Dow-Jones Averages:			
Industrials	1,233.13	– 22.46	+ 325.39
Transportation	561.58	– 22.84	+ 196.55
Utilities	134.68	+ 1.25	+ 18.77
65 Stocks	488.97	– 10.43	+ 135.21
Standard and Poor's 500 Stocks	166.07	– 3.44	+ 44.10
N.Y.S.E. Composite Index	96.24	– 1.83	+ 26.23
N.Y.S.E. Avg. Daily Vol. for Week (000's)	77,644	–16,490	+ 17,402

* 46% Taxable equivalent 17.52%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/30/83	Week Ago
Overnight	9.25%	9.13%
1 month	9.38	9.56
3 month	9.50	9.63
6 month	9.69	9.81
1 year	10.00	10.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.50%	11.70%
Long Term (7 to 15 yrs.)	11.60	11.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/30/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01870	53.49
Canada	.8114	1.2324
Denmark	.1050	9.5275
France	.1249	8.0055
Germany	.3790	2.6385
Italy	.0006256	1598.40
Japan	.004234	236.20
Mexico	.006289	159.00
Netherlands	.3392	2.9483
Switzerland	.4694	2.1303
U.K.	1.4953	.6688

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